Economic Trends

Alberta economy slips further on lower oil prices

Oil prices renewed their downward trajectory in late 2015. Over the first three weeks of 2016, the North American benchmark WTI oil price fell to a 12-year low of US$26.55/bbl. Protracted weakness in oil prices is weighing on the Alberta economy. Activity in the energy sector continues to decline, and weakness has spread to other sectors. Population growth is slowing alongside the labour market. Ongoing economic uncertainty has dampened consumer and business confidence, which is weighing on spending. This month's InFocus reviews the economic events that shaped 2015 from Alberta's perspective.

Indicator	Latest Month	Value	Change year-over-year (y/y)
Employment (thousands)	December	2,286	-0.9%
Unemployment Rate	December	7.0%	+2.2 p.p.
CPI Inflation (unadjusted)	December	1.5%	-0.4 p.p.
Retail Sales	November	$6.3 B	-4.1%
Housing Starts (annualized)	December	25,993	-26.0%
Rigs Drilling (unadjusted)	January	120	-55.7%
Manufacturing Shipments	November	$5.4 B	-14.4%
Exports (unadjusted)	November	$6.6 B	-27.1%

Source: Statistics Canada, CAODC, CMHC. p.p.= percentage points.

Alberta Household Sector

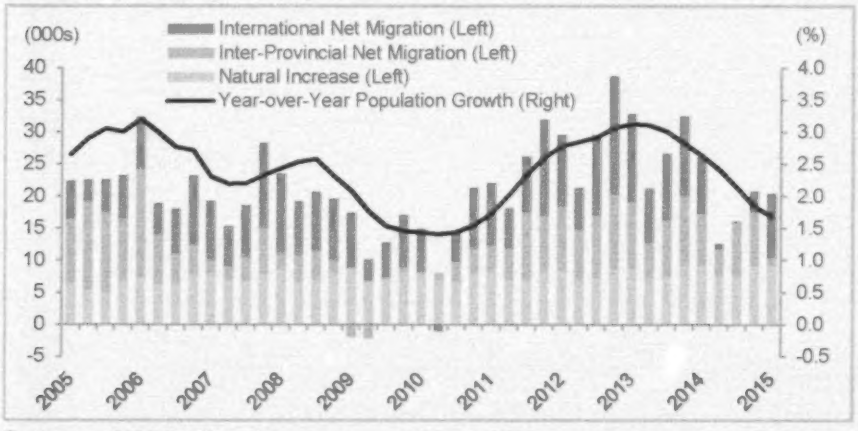
Interprovincial migration slows

Alberta's population reached 4,216,875 in the third quarter of 2015. This was a 1.7% year-over-year (y/y) increase, but the slowest third quarter growth since mid-2011. Growth was dragged down by net interprovincial migration, which fell to its lowest level since 2010, as a weakening economy discouraged migration from other provinces. Unprecedented immigration levels outweighed the continued net outflow of non-permanent residents, which supported net international migration. Alberta's relatively young population contributed to a robust natural increase, which accounted for almost half of the population growth.

Labour market falters

After holding fairly steady for most of the year, Alberta's labour market deteriorated near the end of 2015. Employment fell by just over 25,000 over the fourth quarter and the unemployment rate climbed to 7.0% in December, the highest since April 2010. Greater unemployment translated into higher regular Employment Insurance (EI) beneficiaries. In November, the number of beneficiaries doubled to 61,300 y/y, about 10,000 fewer than at the height of the 2008-09 recession. The weakness in employment continued to push down average weekly earnings, which fell 2.4% y/y in November.

Chart 1: A weaker economy is dampening population growth
Alberta population growth by source



Sources: Statistics Canada

Albertans curtail spending

As labour market conditions deteriorated, the decline in consumer spending broadened beyond discretionary purchases like motor vehicles. In November, most retail categories posted negative year-over-year growth. Sales from food and beverage stores were 6.4% lower than in November 2014, the largest year-over-year decline in over ten years. This was despite food prices growing by 3.4% over the same period. Through eleven months, Alberta retail sales were down 3.4% y/y.

Housing market softening

The momentum that supported the new housing market through the first half of 2015 has eased off. Housing starts dropped in December to around 26,000 (annualized), the lowest level since the beginning of 2012. Both multi-family and single unit starts posted declines. The resale housing market slipped further in December as consumer sentiment faltered. Listings increased 7.8% from November, while sales declined 4%. Existing home sales declined in every month after July and finished the year down 16% from December 2014.

Alberta Business Sector

Oil sands production ramps up

Supply disruptions slowed the pace of growth in crude production in the fall of 2015, but bitumen production continued to expand. It increased 13.5% y/y in October to record 1.5 million barrels per day, offsetting declines in synthetic and conventional. A fire at an upgrader in the province reduced synthetic production by almost 25% between August and October. With rigs drilling falling to a 20-year low, conventional production was down almost 15% y/y, but it represents less than 20% of total production. Total production was up 5.1% year-to-date (YTD), driven by gains in bitumen.

Government props up investment

Private sector nonresidential building construction (which largely excludes oil and gas) slumped for most of 2015. However, declines were partly mitigated by an increase in government and institutional spending, which nearly doubled year-over-year in the fourth quarter of 2015. This supported overall growth of 1.0% for 2015. Despite the increase, the pace of decline in the industrial and commercial sectors accelerated through the year. As a result, non-residential building construction fell 2.6% y/y to $2.7 billion in the fourth quarter.

Business output slumping

With the pullback in business activity in the province, Alberta manufacturing sales continued to fall, reaching a five-year low in November (Chart 2). Sales of petroleum and coal were sharply lower, dragged down by a large decline in refined product prices as well as lower volumes. Chemical manufacturing sales fell by 3.9% y/y, largely due to the decline in prices. Lower oil prices also reduced demand for Alberta machinery, which primarily serves the oil and gas industry worldwide. Machinery shipments were down by over 40% y/y. On the positive side, food manufacturing was up 3.2% y/y, benefiting from higher beef prices.

Chart 2: Manufacturing shipments falls with oil prices
Alberta Manufacturing Sales and the price of West Texas Intermediate

Source: Statistics Canada

Global Economy

Bank of Canada lowers outlook

The Bank of Canada lowered its forecast for Canadian real GDP growth in 2016 by 0.6 percentage points to 1.4%. Although growth picked up in the third quarter of 2015, the continued decline in commodity prices led the Bank to downgrade its forecast. The impact of the decline in oil prices has gradually spread to other regions and sectors in Canada and is weighing on the Canadian economy. The Bank's outlook for the global economy highlighted China's slowdown as well as steadily improving prospects for the US economy.

Global economy disappoints

Global economic growth will remain tepid this year according to the International Monetary Fund. The global GDP forecast was trimmed by 0.2 percentage points to 3.4% in 2016 and 3.6% in 2017. This is below the 4% average annual growth between 2004 and 2014. The outlook for both advanced and especially emerging market economies has deteriorated. The revisions reflect an array of ongoing economic challenges, including the continued decline in commodity prices, financial market volatility, significant currency fluctuations, low inflation and weak global demand.

China's economic woes continue

China's financial markets have become increasingly volatile as its economy steadily slows. Chinese stock prices tumbled during the first week of January. This followed the release of manufacturing data, which has signaled decreasing activity since March 2015 and hit a three-month low in December. The effects rippled globally, lowering equity and commodity prices. Canada was not immune. Over the first three weeks of 2016, the TSX Composite dropped 9% and the Loonie lost almost four cents against the US dollar, though both have since rebounded modestly.

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inFocus

2015 Year in Review

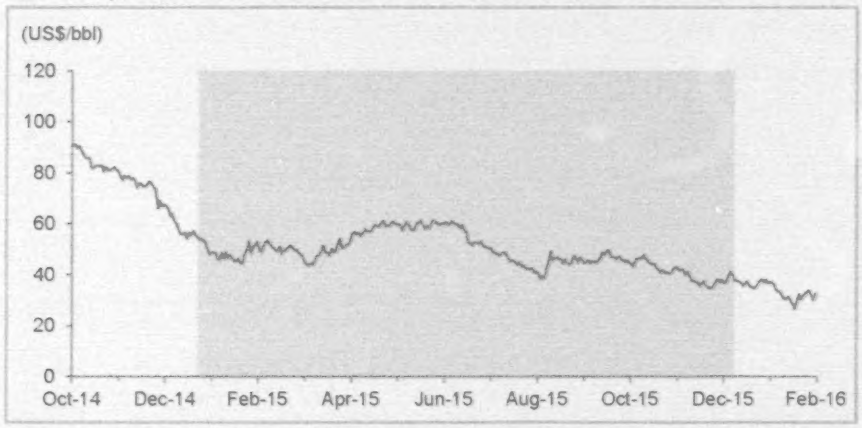
After five years of exceptional growth, Alberta's economic expansion was halted by the plunge in oil prices in 2015. Momentum from 2014 supported activity in the first half of the year. As the year progressed, though, weakness spread beyond the energy sector as the impact of lower prices worked its way through the economy.

Business Sector

Low prices obscure crude output gains

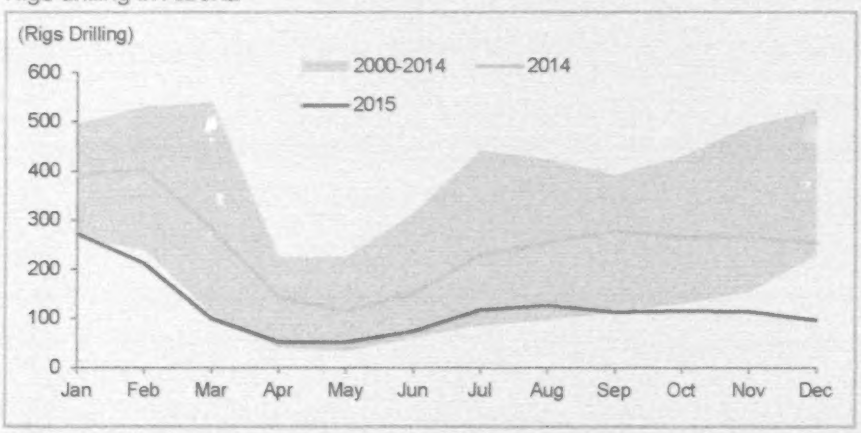
The price of West Texas Intermediate (WTI) crude oil opened 2015 down 50% from mid-2014 (Chart 1). Except for a brief recovery in the second quarter, prices continued to fall and closed 2015 down 30% at US$37/bbl. Increased production from OPEC and resilient North American production added to an already oversupplied global market.

Chart 1: Oil price continues to fall
WTI US$ per barrel



Source: Haver Analytics

Chart 2: Oil sector investment and activity responds to price drop
Rigs drilling in Alberta



Source: CAODC

The WTI-WCS differential remained fairly stable for most of the year. With the decline in WTI, though, heavy oil prices took a hit. In December, the Alberta heavy crude benchmark (WCS) was US$22.50/bbl. New oil sands projects coming on line and ramping up led to large gains in bitumen production in 2015. Oil export volumes increased almost 12% through November, but falling oil prices depressed the value of exports by around 30%.

Lower investment

Investment in the province declined in 2015. Conventional oil and gas investment was especially responsive, as the number of rigs drilling declined by over 50% to the lowest level since 1992 (Chart 2). Major oil sands projects under construction still proceeded, but firms focused on containing costs and delaying or slowing development, which dragged down non-conventional energy investment. Outside oil and gas, non-residential building construction increased by 1.0%, propped up by government spending; however, industrial and commercial non-residential building construction declined a combined 8.6%. Residential construction also slowed after a strong first quarter and was down almost 2% year-to-date (YTD) by the third quarter.

Energy weakness spreads

The slowdown in the energy sector fed through to most other sectors of the economy. In addition to the large hit to petroleum and crude sales from lower prices, there were broad-based declines in most industries. Excluding energy products, manufacturing shipments fell 4.1% YTD and exports were down 1.6% YTD in November.

Prices support farming sector

Agriculture was a bright spot in Alberta's economy in 2015. Farmers faced challenging weather conditions, but a longer growing season and generally favourable prices led to a productive year. Farm cash receipts were up 6.3% year-to-date in the third quarter, led by a 10.3% increase in livestock receipts. Grain deliveries declined by 4.1% from 2014 due to the weather challenges, but crop cash receipts through the first three quarters of the year held steady.

Costs ease

Lower activity and investment put downward pressure on costs in Alberta. Businesses trimmed labour costs by reducing hours and employment. As a result, average weekly earnings (AWE) steadily declined in 2015 and fell below 2014 levels starting in June. Non-residential building construction indices also fell across most sectors, despite the increase in import prices due to the declining value of the Canadian dollar.

Household Sector

Labour market weakens as year progresses

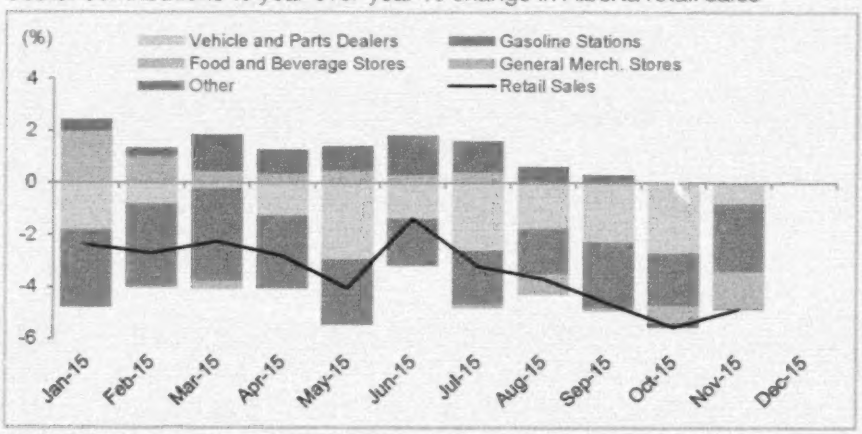
Overall employment grew 1.2% in 2015, reflecting a significant amount of momentum in the labour market from 2014. Early in 2015, service sector and part-time employment outweighed losses in energy-related sectors. As the year progressed, however, the unemployment rate rose steadily and job vacancies declined. Employment losses mounted in the last quarter. Private sector employment declined consistently and ended the year down over 73,000 compared with December 2014. Industries that posted the largest declines were energy, construction, and manufacturing.

Consumer confidence wanes

Cuts in investment and weakening labour market conditions weighed on household spending in 2015. Retail sales suffered, with declines in almost all major categories by the end of 2015. With the plunge in oil prices at the beginning of 2015, consumer confidence waned and the housing market cooled off. Province-wide, existing home sales fell sharply in January 2015 and closed the year down 21% compared to 2014. By the end of 2015, the market was hovering near buyer's territory. Housing markets tied more closely to the energy sector (like Calgary) took the biggest hit, while Edmonton's held up relatively well. In the new housing market, housing starts remained strong in the first quarter of the year, as supply was catching up with strong migration and income growth over the past few years. They weakened over the second half the year, and were down 8.1% from 2014.

Chart 3: Consumer spending slowing

Sector contributions to year-over-year % change in Alberta retail sales



Source: Statistics Canada

Outside Alberta

Weaker global growth

The global economy grew by an estimated 3.1% in 2015, which was weaker than initially expected. The US economy remained solid, while growth in Europe picked up modestly. Other advanced economies and emerging markets struggled throughout 2015. China's economy continued to show signs of slowing, and growth contracted in the large commodity-driven economies of Brazil and Russia. The slowdown in China and other emerging markets dampened commodity demand, which lowered commodity prices.

Canadian outlook dims

Canada's economy was hit hard by the decline in commodity prices. Canadian real GDP contracted in the first half of 2015, mainly on lower energy investment. Lower commodity prices, rate cuts by the Bank of Canada and a stronger US dollar caused the Loonie to lose 14 cents against the greenback in 2015. The depreciation of the dollar supported exports but made imports more expensive and kept inflation above 1% for the year. The unemployment rate creeped up to close the year at 7.1%.

Diverging monetary policy

Against the backdrop of economic uncertainty and market volatility, many central banks around the world increased monetary stimulus in 2015 including Canada, Japan, Europe, and China. The improving US economy and monetary policy tightening led the US dollar to appreciate against most currencies. In December, the US Federal Reserve increased interest rates in recognition of improving labour market conditions.

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